



Internal Audit Report

Solid Waste P-Card Review June 2005



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Max W. Wilson, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Mary Rose Wilcox, Supervisor, District V

We have completed our review of Solid Waste Management's Purchase Card transactions. Our office was requested to review this area by the County Manager. Highlights of this report include the following:

- Employees' Purchase Card transactions were not in compliance with County policies and procedures
- Cardholders did not maintain receipts or transaction logs, and made purchases off-contract and for personal use
- Personnel costs and Purchase Card expenditures were not allocated appropriately between the Waste Tire Fund and the Landfill Fund

Within this report you will find an executive summary, specific information on the areas reviewed, and Solid Waste Management's response to our recommendations. We have reviewed this information with the Director and appreciate the excellent cooperation provided by management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Joe Seratte at 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

Purchasing Card (P-Card) Activity (Page 3)

P-Card purchases made by Solid Waste (SW) employees were not in compliance with County policies and procedures; over \$90,000 in P-Card transactions were made without maintaining receipts or transaction logs; purchases were not approved by SW management; personal and off-contract purchases were made. SW Management should implement controls to ensure compliance with County P-Card policies and forward P-Card transactions that appear to be personal to the Sheriff's Office for further investigation.

Waste Tire Fund Expenditures (Page 7)

P-Card expenditures and personnel costs were not correctly allocated between the Landfill and Waste Tire Funds. All of SW's P-Card expenditures were inappropriately coded to Other Services within their department budget. As a result, SW exceeded annual budgeted supplies expense by \$77,395 and inappropriate purchases went undetected. SW Management should ensure that expenditures are accounted for in the appropriate fund and transfer any expenditures inappropriately paid from the Waste Tire Fund to the Landfill Fund.

Introduction

Background

During a routine procurement card review of Solid Waste (SW) transactions, the Department of Materials Management noted questionable transactions and several instances of non-compliance with the County's Procurement Card Policy. Materials Management reviewed selected transactions and found many purchases that were either personal or that could not be verified as appropriate for County business use. As a result, the County Manager requested that Internal Audit review SW P-Card activity for certain employees.

Solid Waste Operations

SW provides or contracts for transfer and disposal of solid waste for remotely located communities. Arizona state law requires the County to ensure that SW disposal services are available to all County residents. The County operates six transfer stations that accept solid waste from County citizens or businesses. SW then transfers waste collected to designated landfills. The County no longer operates any landfills; however SW still monitors six closed County landfills. The Arizona Department of Environmental Quality requires the County to test landfill groundwater and gas emissions for 30 years after closure.

SW also administers the Waste Tire Recycling program to reduce illegal dumping of waste tires. These services are offered to citizens and all governmental agencies within Maricopa County. The purpose of the program is to ensure that waste tires are disposed of properly. A waste tire fee is imposed on the sale of each tire, with a maximum fee of \$2 per tire. The fees are collected by the tire or motor vehicle dealer and remitted to the Arizona Department of Revenue.

Scope and Methodology

The scope of our review was to document the appropriateness of P-Card activity of certain SW employees from FY 2003 through January 2005. Materials Management and SW Management have reviewed selected transactions, and we did not duplicate work already completed. We concluded that the transactions in question were allowed because SW lacked management oversight and failed to use the controls built into the P-Card program.

The objectives of this audit were to determine if:

- P-Card purchases were justified and for County business only
- Items purchased with County P-Cards can be located at SW Facilities
- Fuel purchases were appropriate
- Expenditures were allocated between the Landfill and Waste Tire Funds accurately

This audit was performed in accordance with generally accepted government auditing standards.

Issue 1 Purchasing Card Activity

Summary

P-Card purchases made by SW employees were not in compliance with County policies and procedures; over \$90,000 in P-Card transactions were made without maintaining receipts or transaction logs; purchases were not approved by SW management; personal and off contract purchases were made. SW Management should implement controls to ensure compliance with County P-Card policies and forward P-Card transactions that appear to be personal to the Sheriff's Office for further investigation.

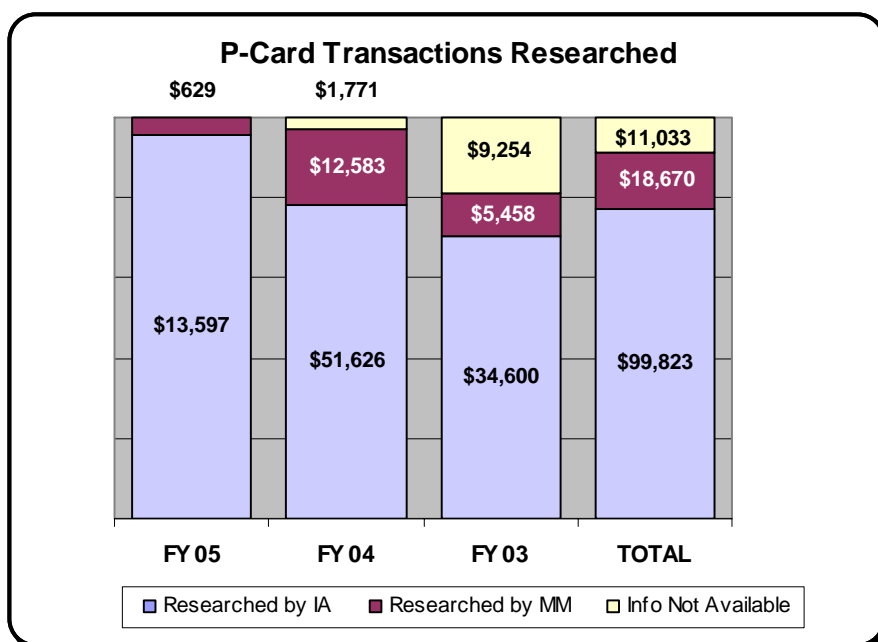
Cardholder Responsibilities

The primary goal of the P-Card Program is to significantly reduce the cost of purchasing goods and services. However, the program places reliance on cardholder responsibility, and requires cardholders to maintain proper documentation for purchases. SW employees did not comply with the P-Card policy, including: (1) failing to maintain receipts and transaction logs, (2) failing to adhere to the procurement code, and (3) making personal or unapproved purchases.

Purchase Detail

In most instances, the data provided by Materials Management did not provide enough detail to specifically identify the items purchased. In order to determine whether purchases made by employees were appropriate and in compliance with the P-Card policy, further research of the individual card transactions was required. Employees did not maintain receipts and transactions logs. To obtain additional detail, we had to contact the vendors directly. The graph below depicts the purchases that were reviewed by the Department of Materials Management and Internal Audit, and the unidentified purchases.

Because of the length of time since the P-Card transactions occurred, some vendors were not able to provide a duplicate receipt. Credit card disputes must be filed within 90 days of a transaction; therefore, some vendors do not retain credit card slips after that period. Most vendors are required to keep credit card records for three years; only limited information was available for transactions prior to FY 2003.

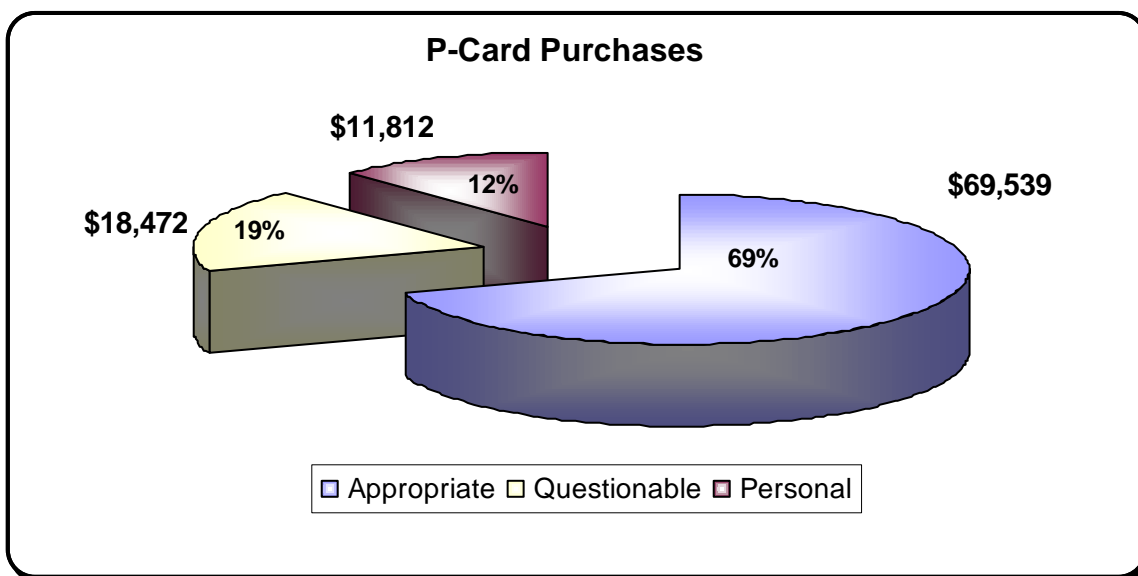


Review Results

After reviewing the P-Card transactions, we organized the \$99,823 of purchases into three categories: appropriate, questionable, and personal. The table below provides a description of the three categories as well as some examples.

Category	Description	Examples
Appropriate	Related to SW operations	<ul style="list-style-type: none"> • Construction tools & supplies • Equipment & storage rentals • Fuel for generators
Questionable	Unable to determine if approved by management	<ul style="list-style-type: none"> • Office supplies purchased from non-County vendors • Tools & supplies not located at SW facilities • Cleaning supplies
Personal	Purchases clearly not for County use	<ul style="list-style-type: none"> • Fuel & auto parts for personal vehicles • Electronics such as cameras, TV's, and microwaves • Long distance service • Home décor such as rugs, tables, chairs, and framed art.

The graph below depicts the total amount of transactions researched and the dollar amount identified within each of the three categories.



Appropriate Purchases

Of the P-Card transactions reviewed, \$69,539 were related to the ongoing operations of the SW Department. In many situations County vendors are paid using P-Cards in an attempt to reduce the amount of financial transactions to be processed.

Many of the items purchased included building supplies and power tools from home improvement stores. SW Management indicated that the items purchased by these cardholders were appropriate because of construction projects they have completed during the past few years.

However, controls for maintaining an inventory of power tools and other high dollar supplies have not been established, which raises the likelihood that items could be lost, stolen, or misused.



SW employees used P-Cards to purchase construction supplies for projects at various transfer stations.

As part of the review, we worked with SW management to validate construction expenses. We also went on site at SW locations to physically locate and identify some of the purchases. We concluded that the volume of these types of P-Card purchases appears reasonable for the projects completed. However, this is an estimate and we were not able to validate all purchases.

Questionable Purchases

The County has a contract with Office Depot, which should always be used by employees when ordering supplies. We verified that \$4,048 in office supplies were purchased from Office Max and Staples, and not made through the County contract with Office Depot. We were able to validate some of the larger supply purchases such as a paper shredder, fax machine, and office chairs. However, most of the office supplies such as pens, calculators, file folders, paper, and toner cannot be inventoried or verified as purchased for County use.

The remaining purchases that are considered questionable are items that cannot be accounted for or located at the SW facilities. The cardholder who made these purchases is no longer employed with the County, which prevented us from interviewing and potentially identifying some questionable purchases as being for personal use. In addition, because the previous SW Director did not review or sign off on any P-Card purchases made by SW employees, it is not clear whether the transactions were approved by management.

Personal Purchases

We estimate that SW employees made \$11,812 in personal purchases. The personal purchases made using the County P-Card appear to be limited to two cardholders, who are no longer employed with the County. The two cardholders had 211 separate fuel transactions totaling over \$5,550.

The employees were in administrative positions and were not assigned a County vehicle, per SW Management and Equipment Services records. According to SW Management, the employees had no business reason for purchasing fuel with the County P Card.

Other personal items purchased included digital cameras, televisions, appliances, and home décor. The purchases were not documented on transaction logs, supporting documentation was either illegible or not available, and SW Management did not approve purchases. We were not able to locate items purchased at SW facilities, and we verified with SW management that these items were not purchased for SW operations.



Over \$11,000 in personal purchases was made with the County P-Card. Items purchased included gasoline, digital cameras, TVs, microwaves, vacuums, and home décor.

Recommendation

SW Management should:

- A. Implement policies and procedures to ensure the compliance with the County P-Card Program.
- B. Implement an inventory control system to track power tools, building supplies, and other expensive purchases.
- C. Forward personal P-Card transactions to the Sheriff's Office for further investigation and possible prosecution.

Issue 2 Waste Tire Fund Expenditures

Summary

P-Card expenditures and personnel costs were not correctly allocated between the Landfill and Waste Tire Funds. All of SW's P-Card expenditures were inappropriately coded to Other Services within their department budget. As a result, SW exceeded annual budgeted supplies expense by \$77,395 and inappropriate purchases went undetected. SW Management should ensure that expenditures are accounted for in the appropriate fund and transfer any inappropriate expenditures paid from the Waste Tire Fund to the Landfill Fund.

Waste Tire Program

ARS §44-1305 requires the County to establish a Waste Tire Program, providing waste tire collection and recycling services to citizens. The purpose of the program is to ensure that waste tires are disposed of properly. Throughout the County, a waste tire fee is imposed on the sale of each tire, with a maximum fee of \$2 per tire. The fees are collected by tire or motor vehicle dealers and remitted to the Arizona Department of Revenue. Each quarter, the County is allocated a portion of waste tire revenues based on the number of motor vehicles registered within the County. For FY 2004, the County received \$3.7 million specifically for operation of the Waste Tire Program.

Program Expenditures

Monies received from the Waste Tire Fund must be used specifically for the operations of the County's Waste Tire Program. Below are types of projects that are appropriate expenditures for Waste Tire Funds:

- Development of a plan to manage waste tires in the County
- Construction or operation of a waste tire processing facility including equipment required for that facility
- Contracts for a waste tire processing facility service
- Removal of waste tires from the County
- Establishment of waste tire collection centers at SW disposal facilities or waste tire processing facilities

SW accounts for their expenditures in two separate funds. A Special Revenue Fund is used to account for waste tire activity pursuant to §ARS 44-1305. Special Revenue Funds are used to account for revenues obtained via specific taxes or other designated revenue source, such as the revenue received for the County Waste Tire Program. SW accounts for operation of transfer stations and post-closure liabilities for the County-owned landfills in an Enterprise Fund, referred to as the Landfill Fund. An Enterprise Fund is used to account for the operation and maintenance of facilities and services which are predominantly self-supporting by user charges.

Personnel Costs

During FY 2004, SW inappropriately paid salaries for two Administrative Specialists and two General Maintenance Supervisors from the Waste Tire Fund. One of the Administrative Specialist positions was eliminated at the end of FY 2004. During FY 2005, salaries for one Administrative Specialist position as well as the two General Maintenance Supervisors' positions were also paid out of the Waste Tire Fund.

The Administrative Specialist position is responsible for the administrative duties related to both the Waste Tire Program and the SW Transfer Stations. However, all of the personnel costs for this position are being paid for from the Waste Tire Fund. One Administrative Specialist position was eliminated during FY 2004 as a result of the landfill closures, which indicates that this position was dedicated to more than the Waste Tire Program.

The General Maintenance Supervisors oversee operations at both the Waste Tire Facility and the various SW Transfer Stations. During the past two years, both employees worked on several projects specific to the landfill and transfer station operations. Some of the projects that the employees worked on included the following:

- Constructing retaining walls and unloading platforms
- Building drainage diversions
- Constructing a trailer at the Buckeye Yard
- Installing valve boxes at the Cave Creek Landfill
- Building a fence at the Cave Creek & Rainbow Valley Transfer Stations

P-Card Transactions

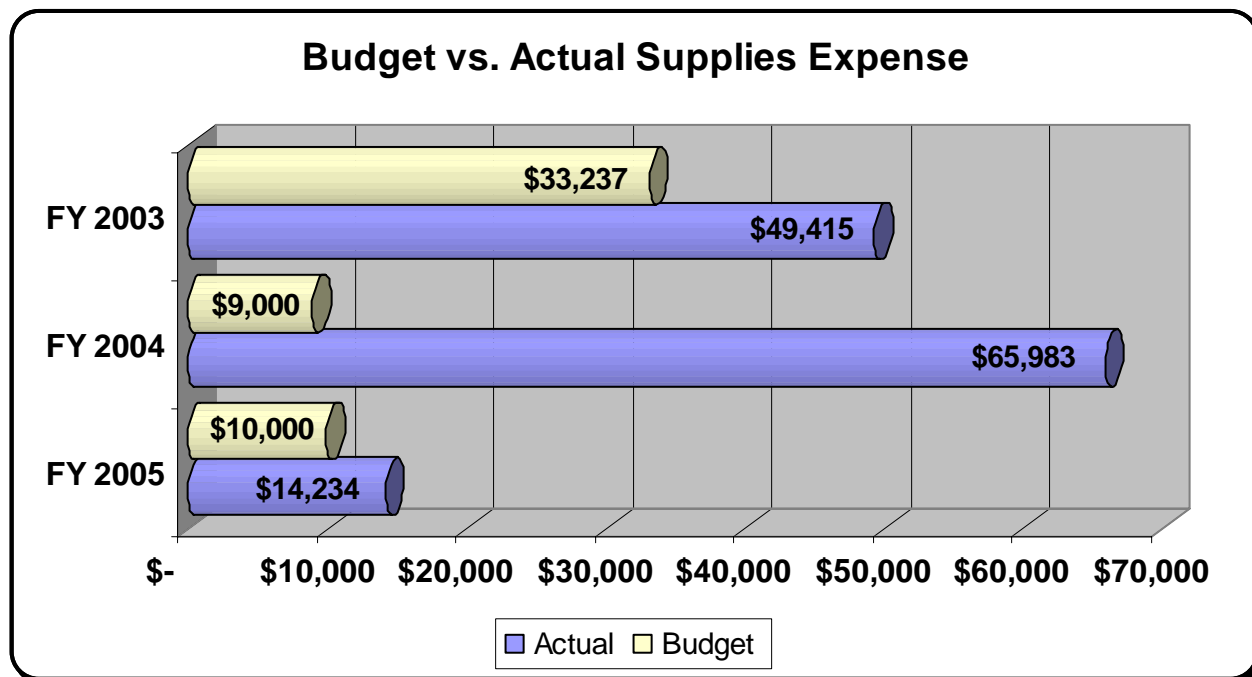
Agency Accounting String

Two employees' P-Card purchases were paid entirely from the Waste Tire Fund. Since FY 2003, \$29,275 in P-Card payments have been paid from the Waste Tire Fund. Although we were not able to identify the appropriate fund for all transactions, we were able to identify several transactions that were paid from the Waste Tire Fund that were not specifically for the operation of the Waste Tire Program. Transactions identified include the following:

- \$4,537 in payments to Waste Management of Phoenix for tipping fees to dispose of waste collected at County transfer stations
- \$2,508 paid to Office Max and Staples for office supplies
- \$11,812 in personal P-Card purchases

Object Code Accounting String

We reviewed the accounting string allocations for the P-Card Transactions for FY 2003 to date and found that all transactions were coded to the object code 812 “Other Services” instead of object code 801, which represents “Supplies.” We did not identify any services that were purchased using the P-Card. Below is a summary of the P-Card expenditures made by SW and a comparison to their supplies budget.



Effect

Waste Tire Program expenditures were not in compliance with ARS 44-1305, which could affect future funding of the County’s Waste Tire Program. Purchases made using Waste Tire Funds must only be used only for the operation of the Waste Tire Program.

Recommendation

SW Management should:

- A. Ensure that expenditures are accounted for and paid from the appropriate fund.
- B. Transfer any inappropriate amounts paid from the Waste Tire Fund to the Landfill Fund.
- C. Utilize the appropriate object code when establishing cardholders default accounting strings.

Department Response

AUDIT RESPONSE
SOLID WASTE MANAGEMENT DEPARTMENT JUNE 15, 2005

Issue #1:

P-Card purchases made by SW employees were not in compliance with County policies and procedures; over \$90,000 in P-Card transactions were made without maintaining receipts or transaction logs; purchases were not approved by SW management; personal and off contract purchases were made.

Response: Concur. The SW department failed to adhere to the County P-card policy and procedures established by Materials Management for documenting, tracking and approving all transactions. Initially upon issuance of the P-cards, receipts and logs were kept but management failed to review receipts and approve the P-card logs. This lack of management oversight led to incomplete documentation, unverifiable and unauthorized purchases and fraudulent use of the P-card.

Recommendation A: Implement policies and procedures to ensure the compliance with the County P-Card Program.

Response: Concur—Completed. All P-cards for the SW department have been cancelled. All future issued cards will require that Materials Management train the assigned personnel on the correct usage and documentation of P-card transactions. The P-card log and all receipts will be reviewed monthly, verified for authorized transactions and approved by the department Director.

Target Completion Date: Immediately

Benefits/Costs: Improved effectiveness of internal procurement controls and elimination of improper use of P-card.

Recommendation B: Implement an inventory control system to track power tools, building supplies, and other expensive purchases. Review preventive maintenance procedures and revise as necessary.

Response: Concur--all equipment within the SW department that has an initial value in excess of \$500.00 will be inventoried and maintained on an Excel spreadsheet. All new purchases in excess of \$500.00 will be added to the inventory. Department procedures will include steps to identify purchasing and inventory update processes.

Target Completion Date: 7/29/2005.

Benefits/Costs: Improved documentation allowing equipment to be readily identified as to location and availability.

Recommendation C: Forward personal P-Card transactions to the Sheriff's Office for further investigation and possible prosecution.

Response: Concur—SW will seek Legal Counsel on the process for turning the investigation results over to the MSCO. Information and documentation concerning P-card transactions made by two previous administrative employees that were identified as

“Questionable” and/or “Personal” will be coordinated by SW management to be forwarded to the MCSO based on legal advice.

Target Completion Date: 7/29/2005.

Benefits/Costs: Improves the overall effectiveness of the P-card program by stressing the importance of management oversight and responsibility. Punitive action provides an effective deterrent to potential misuse of County procurement cards including theft and personal gain.

Issue #2:

P-Card expenditures and personnel costs were not correctly allocated between the Landfill and Waste Tire Funds.

Response: Concur. P-card accounting strings were assigned by the SW Director based on the availability of funds. The P-cards assigned to administrative personnel were allocated to the Waste Tire Fund. However, many of their purchases were for supplies and equipment needed to upgrade and maintain the Transfer Stations and Landfill projects. This resulted in costs being allocated to the wrong fund. In addition, lack of management oversight allowed purchases to be made with no relationship to approved budget items.

Recommendation A : Ensure that expenditures are accounted for and paid from the appropriate fund.

Response: Concur-- All P-cards issued in the future will have the correct accounting string assigned through Materials Management. All purchases will be reviewed monthly to ensure all transactions are allocated to the correct accounting string.

Target Completion Date: Immediate

Benefits/Costs: Ensures only those authorized expenditures are allocated to the correct fund.

Recommendation B : Transfer any inappropriate amounts paid from the Waste Tire Fund to the Landfill Fund.

Response: Concur--in process. Those purchases clearly identified as supplies or equipment used for Transfer Station and/or Landfill maintenance projects will be transferred to the correct fund.

Target Completion Date: 6/24/05

Benefits/Costs: Results in more accurate fund balances and improves the SW department's budget management processes.

Recommendation C : Utilize the appropriate object code when establishing cardholders default accounting strings.

Response: Concur—The correct Object Codes will be used in all future P-card transactions. This will be verified and approved during the monthly P-card Log review.

Target Completion Date: Immediate

Benefits/Costs: Ensures authorized expenditures are allocated to the correct budget item.

Approved By : Will Smith 6/21/05
Department Head/Elected Official Date

V. L. 6.22.05
Chief Officer Date

D. Smith 6/24/05
County Administrative Officer Date